PENDAL

# Factsheet

Equity Strategies

28 February 2025

# Pendal Focus Australian Share Fund

ARSN: 113 232 812

### About the Fund

The Pendal Focus Australian Share Fund (**Fund**) is an actively managed concentrated portfolio of Australian shares.

### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

### Description of Fund

This Fund is designed for investors who want the potential for long term capital growth and tax effective income from a concentrated portfolio of primarily 15-30 Australian shares and are prepared to accept higher variability of returns. The Fund may also hold cash and may use derivatives.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

### Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

### Investment Team

Pendal's nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 34 years' industry experience. Crispin is also Head of Equity.

### Other Information

| | |
|---|---|
| Fund size (as at 28 February 2025) | $1,969 million |
| Date of inception | April 2005 |
| Minimum investment | $25,000 |
| Buy-sell spread[1]<br>For the Fund's current buy-sell spread information, visit www.pendalgroup.com | |
| Distribution frequency | Half-yearly |
| APIR code | RFA0059AU |

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

### Investment Guidelines

| | |
|---|---|
| Ex-ante tracking error | 3.0% - 6.0% |
| Max absolute stock position | 15% |
| Min/max sector position relative to index | +/- 15% |
| Min/Max BARRA style factors | +/- 0.5 SD |
| SIRA style factors | Within 1 SD |
| Maximum cash level | 30% |
| Shorting | No |
| Borrowing | No |

### Performance

| (%) | Total Returns (post-fee) | Total Returns (pre-fee) | Benchmark Return |
|---|---|---|---|
| 1 month | -3.66 | -3.59 | -3.79 |
| 3 months | -2.12 | -1.88 | -2.59 |
| 6 months | 5.08 | 5.69 | 2.76 |
| 1 year | 13.08 | 14.16 | 9.65 |
| 2 years (p.a) | 12.00 | 12.96 | 10.09 |
| 3 years (p.a) | 9.38 | 10.27 | 8.89 |
| 5 years (p.a) | 9.94 | 10.94 | 8.79 |
| Since Inception (p.a) | 9.33 | 10.40 | 7.87 |

Source: Pendal as at 28 February 2025

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: April 2005.

Past performance is not a reliable indicator of future performance.

### Sector Allocation (as at 28 February 2025)

| | |
|---|---|
| Energy | 4.0% |
| Materials | 16.5% |
| Industrials | 7.3% |
| Consumer Discretionary | 3.7% |
| Consumer Staples | 3.3% |
| Health Care | 10.0% |
| Information Technology | 8.4% |
| Telecommunication Services | 10.0% |
| Utilities | 0.0% |
| Financials ex Property Trusts | 28.6% |
| Property Trusts | 4.5% |
| Cash & other | 3.7% |

### Top 10 Holdings (as at 28 February 2025)

| | |
|---|---|
| BHP Group Ltd | 8.5% |
| CSL Limited | 8.4% |
| Commonwealth Bank of Australia | 8.2% |
| Telstra Group Limited | 6.6% |
| National Australia Bank Limited | 5.7% |
| Xero Limited | 5.4% |
| Westpac Banking Corporation | 5.0% |
| QBE Insurance Group Limited | 4.0% |
| Qantas Airways Limited | 4.0% |
| Aristocrat Leisure Limited | 3.7% |

### Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

| | |
|---|---|
| Management fee[2] | 0.75% pa |
| Performance fee[3] | 15% of the Fund's performance (before fees) in excess of the performance hurdle. |

[2] This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

[3] This is the fee we charge if the Fund's investment performance exceeds its performance hurdle, and any performance deficit has been recouped. The Fund's performance fee is 15% of the Fund's performance in excess of the performance return hurdle. The performance hurdle is the performance of the Fund's benchmark (S&P/ASX 300 (TR) Index) plus the management fee of 0.75% pa. If a performance fee is payable, it is charged in addition to the management fee. The performance fee is calculated in dollar terms each Business Day based on the investment performance and value of the Fund on that day. If we are entitled to a performance fee, it is paid to us as at 30 June each year.

### Market review

February saw building concerns that the pace of policy actions in the US is creating uncertainty which is leading to consumers and businesses deferring decisions and possibly dragging on economic growth.

This was reflected in weaker measures of consumer and business confidence and spending intentions at the back end of the month.

These concerns saw equity markets lower, with the S&P 500 down -3.15% and the S&P/ASX 300 -3.79%, and also saw some rotation out of the more expensive sectors.

The RBA began its easing cycle, although the 25bp cut in rates to 4.1% was accompanied by a strong message tempering market expectations about the timing of further reductions.

The domestic reporting season was reasonable, driven largely by stock-specifics rather than broader themes. There was an unusually high degree of volatility associated with stock price reactions to results.

Bank updates painted a picture of an economy which continues to hold up well, with signs of some improvement in consumer discretionary spending. Commonwealth Bank's (CBA, -1.00%) result was solid, although quarterly updates from Westpac (WBC, -5.69%) and National Australia Bank (NAB, -12.06%) disappointed, missing expectations slightly on margin and capital.

Resources (-3.22%) was broadly in line with the market. Iron ore (+5.4%), copper (+7.5%) rose but Brent crude was off -3.5%. Gold gained 2.5%.

The small Utilities (+3.15%) sector outperformed, on the back of a well-received results from APA Group (+8.21%) and Origin Energy (ORG, +4.69%)

Communication Services (+2.83%) also did well, helped by Telstra (TLS, +7.25%), Seek (SEK, +4.44%) and Nine Entertainment (NEC, +19.85%). Telstra's result demonstrates the ongoing strength in its core mobile phone segment, while previous issues in its fixed-line businesses appear to be under control.

Information Technology (-12.29%) underperformed on the back of market rotation away from previously strong sectors. Weakness was broad-based with Xero (XRO) down -6.84%, Technology One (TNE) – 4.75% and NextDC (NXT) -10.17%. Wisetech (WTC) fell -27.71% following board resignations and a guidance downgrade.

Health Care (-7.62%) was also weak. Among the larger names CSL (CSL) fell -7.08%, ResMed (RMD) -7.41% and Cochlear (COH) -19.01%.

### Fund performance

The Fund finished slightly ahead of the benchmark in February. Several of the portfolio's larger active weights delivered well-received updates during reporting season, including Telstra (TLS), Qantas (QAN), Evolution Mining (EVN), QBE Insurance (QBE), and Suncorp (SUN). Positions in Nine Entertainment (NEC), SGH (SGH), Seel (SEK) and Treasury Wine (TWE) also outperformed.

The two largest detractors, Viva Energy (VEA) and Mineral Resources (MIN) are relatively small active overweights. Of the larger positions, Xero (XRO) fell on broader technology weakness while CSL (CSL) saw some moderate downgrades on the back of a stronger US dollar and expectations of margin improvement being pushed to the back end of its target timeline.

### Key contributors

#### Overweight Telstra (TLS, +7.25%)

Telstra delivered a good 1H25 result, with most businesses performing well and previous issues in the fixed-line businesses seemingly under control, which allowed EBITDA to grow 6%. The big news was an introduction of a more shareholder-friendly approach to capital, signalled through a unexpected $750m buyback, funded from its strong balance sheet coupled with their confidence in growing future EBITDA, with potential for future buybacks as well. The stock has 5% yield and is buying back 1.5% of shares, which is a good platform for shareholder returns in our view.

#### Overweight Nine Entertainment (NEC, +19.85%)

NEC's 1H25 EBITDA was slightly ahead of expectations due to strong cost control. Management flagged high single-digit growth in Total TV revenue in 3Q FY25 following a tough downturn. Subscriber metrics in publishing and STAN are good, as are audience numbers in TV and BVOD. The 3Q trading update and additional cost-out measures resulted in consensus upgrades of 4.5% at EBITDA and 9% at NPAT. While the result was well-received, the stock price surge was driven by a bid for Domain Group (DHG) from us company Costar. NEC owns a 60% stake in DHG.

#### Underweight Wisetech Global (WTC, -27.71%)

WTC went into trading halt before delivering a governance update and FY25 downgrade – its second after the November AGM - with rollout of its three new products continuing to be delayed. Revenue has been below target for the past two years and there are questions over whether the company is investing enough to achieve growth aims, in our view. Several independent directors have resigned from the board and the company is seeking new directors in order to meet ASX listing rules around non-Executive directors on the Audit & Risk committee.

### Key detractors

#### Overweight Viva Energy (VEA, -33.65%)

VEA's update confirmed market concerns around a softer environment for convenience retail due to cost-of-living pressures and illicit tobacco sales. However the key disappointment came around the On The Run franchise acquired last year, where operating costs have been far higher than expected. At the same time, the initial conversion of other stores to the On The Run format, which is expected to increased profitability, have come at a higher than expected cost. This has raised some concerns that VEA will disappoint the market in terms of the timing and returns from the store conversion programme. The small active overweight here dragged on relative performance.

**Overweight Mineral Resources (MIN, -35.08%)**

MIN announced another capex increase and slight delay at the haul road servicing its Onslow Iron project, which will be completely re-surfaced over the next 4-6 months. Expected FY25 Onslow volumes were cut 18% and Services volumes 5%. While MIN remains adamant the ramp-up at Onslow is largely unaffected, the issue is the high level of debt, which exaggerates the impact of cash flows being below expectations. With de-leveraging pushed further out, there is market speculation the company will need a dilutive equity raise, although management say this is unnecessary given their liquidity, the profile of debt maturities and the intrinsic value of the business not being reflected in the share price.

**Underweight Computershare (CPU, +18.06%)**

CPU beat 1H NPAT beat consensus and upgraded full year guidance. Lower interest expense and tax helped, but the biggest driver was a surge in share plan transactional activity given the strength of markets. This was well received although the share price is now up 70% over twelve months while consensus EPS has only increased 10%. The portfolio remains underweight.

**Outlook**

Policy uncertainty in the US appears to be leading to a reduction in confidence and deferral of business and consumer spending decisions. This is creating risks of a growth scare for the US and is sending signals of a weakening economy.

This does not mean a sustained slowdown is in train. There are some self-correcting measures – such as lower bond yields - and the Fed does have scope to cut rates in response to a material deceleration. However it is a risk to watch.

Domestic reporting season did not suggest any change to the recent trajectory of positive but muted economic growth. Real disposable income continues to improve as the impact of inflation, interest rates and taxes recedes and there are signs that the pressure eon younger age cohorts is easing, with some improvement in discretionary spending. Earnings revisions were broadly in-line with historical averages.

Stock price volatility in response to results was unusually high, however, with ~20% of the market moving more than 10% either way on the day of their release. The key theme was driven by positioning. Where crowded long positions failed to deliver any upside surprise – often in growth sectors such as technology – the stock underperformed. Conversely, we saw strong performance in under-owned stocks which managed to demonstrate more predictability – or at least the absence of more bad news.

It is notable that the Aussie "Mag 7" of the banks, Macquarie Group, Wesfarmers and Goodman, which drove much of the index performance in 2024, are now underperforming. In combination with the recent rotation from growth and momentum factors to yield and value, suggests that the impact of narrative and systematic investing may have peaked for the moment.

There is a view that the Trump Administration is concentrating its most disruptive economic policies into the first few months of its tenure. This, in combination with the domestic stock market volatility and signs of an unwind in the narrative-based trends of recent times, is leading to a surge in uncertainty.

This emphasises the importance of managing thematic and factor risk in the portfolio and not relying on a specific macro pathway or outcome, in our view. Uncertainty also drives mis-pricing, which is driving opportunity for stock picking.

For more information please call **1300 346 821**,
contact your key account manager or visit **pendalgroup.com**

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